

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS
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ADP BULLETIN

Title Annual OMB Circular A-133 Reminder Letter for FY 1998-99		Issue Date: Expiration Date: Through Next Annual OMB Circular A-133 Reminder Letter	Issue No. 00-10
Deputy Director Approval Original signed by: Ann Horn, Acting Deputy Director Division of Administration	Function <input type="checkbox"/> Information Management <input type="checkbox"/> Quality Assurance <input type="checkbox"/> Service Delivery <input checked="" type="checkbox"/> Fiscal <input type="checkbox"/> Administration	Supersedes Bulletin/ADP Letter No. ADP # 98-31	

PURPOSE

The Office of Management and Budget (OMB) revised OMB Circular A-133 on June 24, 1997. The new audit requirements in this Circular became effective during FY 1996-97, and were previously conveyed to County Alcohol and Drug Program Administrators and Direct Service Contractors in ADP Bulletin #98-31. However, in this Bulletin the Department of Alcohol and Drug Programs (ADP) is reiterating in part information contained in ADP Bulletin #98-31. This is necessary due to the majority of single audit reports reviewed for FY 1997-98 and FY 1998-99 that were not in compliance with the new audit requirements. This Bulletin includes the following:

- Exhibit 1 - OMB Circular A-133 (Revised June 24, 1997)
- Specific audit requirements of OMB Circular A-133
- County monitoring responsibilities regarding subrecipients
- Problems noted in our single audit report reviews for FY 1997-98 and FY 1998-99
- Impact of Alcohol and/or Drug Program Certification Standards

DISCUSSION**Specific Audit Requirements**

1. Pursuant to OMB Circular A-133, the counties shall require and ensure that subrecipients expending \$300,000 or more in federal awards in a year, have a single or program-specific audit performed.
 - a. The audit shall be performed in accordance with OMB Circular A-133 (revised June 24, 1997), Audits of States, Local Governments, and Non-Profit Organizations.
 - b. The audit shall be conducted in accordance with generally accepted auditing standards; and "Government Auditing Standards," 1994 Revision, issued by the Comptroller General of the United States.

A copy of the audit performed in accordance with OMB Circular A-133 shall be submitted to ADP within thirty (30) days of completion of the audit, but not later than nine (9) months following the end of the subrecipient's fiscal year.

- c. The cost of the audit made in accordance with the provisions of OMB Circular A-133 can be charged to applicable federal awards. Where apportionment of the audit cost is necessary, such apportionment shall be made in accordance with generally accepted accounting principles, but shall not exceed the proportionate amount that the award represents of the subrecipient's total revenue.
- d. The work papers and the audit reports shall be retained for a minimum of three years from the date of the audit report and longer if the independent auditor is notified in writing by the State to extend the retention period.
- e. Audit work papers shall be made available upon request to ADP, and copies shall be made as is reasonable and necessary.
- f. The counties, in coordination with ADP, shall ensure the subrecipients are responsible for follow-up and corrective action on any material audit findings in the single or program-specific audit reports.

Sanctions for Noncompliance

- 2. Pursuant to OMB Circular A-133, ADP may impose sanctions against counties for not submitting required single or program specific audit reports. The sanctions shall include:
 - a. Withholding a percentage of federal awards until the audit is completed satisfactorily.
 - b. Withholding or disallowing overhead costs.
 - c. Suspending federal awards until the audit is conducted.
 - d. Terminating the federal award.

Data Collection Forms

- 3. Pursuant to OMB Circular A-133, the subrecipient is required to prepare and submit a completed Data Collection Form to the Single Audit Clearinghouse, which includes a signature by the independent auditor, and a certification by a senior level representative of the subrecipient. This form provides the Clearinghouse with information to create and maintain a government-wide database of federal awards, subrecipients, and their audit results. Federal awarding agencies will use the database information to identify audit problems that may require further review or policy change. Additionally, the Single Audit Clearinghouse will use the information in the form to distribute the subrecipient audit reporting packages to federal awarding agencies.

Sanctions for Noncompliance

- 4. Pursuant to OMB Circular A-133, the subrecipient is required to submit one (1) copy of an Audit Reporting Package to the Single Audit Clearinghouse to retain as an archival copy. Further, one (1) copy of the audit reporting package shall be submitted to each federal awarding agency affected by findings disclosed in the Schedule of Findings and Questioned Costs, or the Summary Schedule of Prior Audit Findings.

In addition, the subrecipient is required to submit one (1) copy of the audit reporting package to each County(s) affected regardless of findings or not, and one (1) copy of the audit reporting package from the county for our review.

The audit reporting package shall include the following:

- a. Financial Statements
- b. Auditor's Opinion (or disclaimer of opinion) on the Financial Statements
- c. Schedule of Expenditures of federal awards
- d. Auditor's Opinion (or disclaimer of opinion) on the Schedule of Expenditures of federal awards
- e. Report on Internal Controls
- f. Report on Compliance for Major Programs
- g. Auditor's Opinion (or disclaimer of opinion) on Compliance for Major Programs
- h. Schedule of Findings and Questioned Costs
- i. Summary Schedule of Prior Audit Findings
- j. Management Letter (if applicable)
- k. Corrective Action Plan (if applicable)

Subrecipient Monitoring

5. Pursuant to OMB Circular A-133, the counties are required to monitor the activities of their subrecipients expending less than \$300,000 in total federal funds in a year. This is necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved. In turn, ADP monitors the counties by requesting annual county monitoring procedures and verifying the appropriate levels of monitoring performed.

Moreover, the Health and Safety Code, Section 11837.6 (b), states in part, "The county alcohol program administrator shall assure, through monitoring at least once every six months, compliance with the applicable statutes and regulations by any licensed program within the county's jurisdiction. Whenever possible, the county monitoring shall coincide with the state licensing reviews. The county alcohol program administrator shall prepare and submit, to the department and the program provider, an annual written report of findings regarding the program's compliance with applicable statutes and regulations."

Limited scope audits, on-site visits, and reviews of documentation supporting requests for reimbursement, are monitoring procedures that would be acceptable to OMB in meeting county monitoring objectives. Also, OMB would allow counties to charge federal awards for the cost of these monitoring procedures.

- a. Limited scope audits, as they are defined in Circular A-133, only include agreed-upon engagements conducted in accordance with either the American Institute of Certified Public Accountant's (AICPA's) generally accepted auditing standards or attestation standards, that are paid for and arranged by pass-through entities (counties) and address only one or more of the following types of compliance requirements: (1) activities allowed or unallowed; (2) allowable costs/cost principles; (3) eligibility; (4) matching, level of effort and earmarking; and (5) reporting.

The limited scope audit should be conducted in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States. A limited scope audit includes the CPA's compilation of financial statements and related opinion or disclaimer of opinion, and a report on the agreed-upon compliance requirement procedures and related opinion or disclaimer of opinion.

- b. On-site visits focus on compliance and controls over compliance areas. The reviewer makes site visits to the subrecipient's location(s), and documents the visits using a checklist or program focusing on the compliance areas. All findings noted during the on-site monitoring are handled in the same manner as any exceptions noted during single or program-specific audits.
- c. Reviews of supporting documentation submitted by subrecipients include, but are not limited to, copies of invoices, canceled checks, and time sheets. Prior to reimbursement, the reviewer determines if the costs are allowable under the terms of the federal award.

PROBLEMS NOTED

As previously mentioned, the majority of single audit reports reviewed for FY 1997-98 and FY 1998-99 were not in compliance with the new OMB Circular A-133 audit requirements. The single audit reports included information that was improperly formatted. In other reviews, the information required was missing altogether. The specific problem areas included the following:

- Independent auditor's report on compliance and internal control over financial reporting based on an audit of financial statements in accordance with Government Auditing Standards
- Independent auditor's report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133
- Schedule of findings and questioned costs (includes summary of independent auditor's results)
- Summary schedule of prior audit findings
- Applicable corrective action plan and written attestation letter

The following includes information that is required by OMB Circular A-133, and details the problem areas noted in the above:

1. Independent Auditor's Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements in Accordance with Government Auditing Standards

The basic elements of this report include the following:

- a. A statement that the auditor has audited the financial statements of the auditee and a reference to the auditor's report on the financial statements, including a description of any departure from the standard report.
 - b. A statement that the audit was conducted in accordance with Generally Accepted Auditing Standards (GAAS) and with the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States.
 - c. A statement that as part of obtaining reasonable assurance about whether the auditee's financial statements are free of material misstatement, the auditor performed tests of the auditee's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.
 - d. A statement that providing an opinion on compliance with those provisions was not an objective of the audit and that, accordingly, the auditor does not express such an opinion.
 - e. A statement that notes whether the results of tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and, if they are, describes the instances of noncompliance or refers to the schedule of findings and questioned costs in which they are described.
 - f. If applicable, a statement that certain immaterial instances of noncompliance were communicated to management in a separate letter.
 - g. A statement that in planning and performing the audit, the auditor considered the auditee's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.
 - h. If applicable, a statement that reportable conditions were noted and the definition of a reportable condition.
 - i. If no reportable conditions are noted, a statement that the auditor's consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses; if reportable conditions are noted, a statement that the auditor's consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.
 - j. If applicable, a description of the reportable conditions noted or a reference to the schedule of findings and questioned costs in which the reportable conditions are described.
 - k. The definition of a material weakness.
 - l. If applicable, a statement about whether the auditor believes any of the reportable conditions noted are material weaknesses and, if they are, describes the material weaknesses noted or refers to the schedule of findings and questioned costs in which they are described. If there are no reportable conditions noted, a statement is made that no material weaknesses were noted.
 - m. If applicable, a statement that other matters involving the internal control over financial reporting were communicated to management in a separate letter.
 - n. A statement that the report is intended for the information of the audit committee, management, specified legislative or regulatory bodies, federal awarding agencies, and (if applicable) pass through entities. If the report is a matter of public record, a statement should be added that the report is a matter of public record and its distribution is not limited.
 - o. The manual or printed signature of the auditor's firm.
 - p. The date of the auditor's report.
2. Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

The basic elements of this report include the following:

A statement that the auditor has audited the compliance of the auditee with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major programs.

- a. A statement that the auditee's major programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.
- b. A statement that compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the auditee's major federal programs is the responsibility of the auditee's management, and that the auditor's responsibility is to express an opinion on the auditee's compliance based on the audit.

- c. A statement that the audit of compliance was conducted in accordance with GAAS, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and Circular A-133.
 - d. A statement that those standards and Circular A-133 require that the auditor plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that could have a direct and material effect on a major federal program occurred.
 - e. A statement that an audit includes examining evidence, on a test basis, about the auditee's compliance with those requirements and performing such other procedures as the auditor considered necessary under the circumstances.
 - f. A statement that the auditor believes that the audit provides a reasonable basis for the auditor's opinion.
 - g. A statement that the audit does not provide a legal determination of the auditee's compliance with those requirements.
 - h. If instances of noncompliance are noted that result in an opinion modification, a reference to a description in the accompanying schedule of findings and questioned costs, including:
 - The reference number(s) of the finding(s)
 - The identification of the type(s) of compliance requirements and related major program(s)
 - A statement that compliance with such requirements is necessary, in the auditor's opinion, for the auditee to comply with the requirements applicable to the programs(s)
 - i. An opinion on whether the auditee complied, in all material respects, with the types of compliance requirements that are applicable to each of its major federal programs.
 - j. If applicable, a statement that the results of the auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with Circular A-133 and a reference to the schedule of findings and questioned costs in which they are described.
 - k. A statement that the auditee's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.
 - l. A statement that in planning and performing the audit, the auditor considered the auditee's internal control over compliance with requirements that could have a direct and material effect on a major federal program, to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test the report on the internal control over compliance in accordance with Circular A-133.
 - m. If applicable, a statement that reportable conditions were noted and the definition of a reportable condition.
 - n. If applicable, a reference to a description of reportable conditions noted in the accompanying schedule of findings and questioned costs, including the reference number of the finding(s).
 - o. If no reportable conditions are noted, a statement that the auditor's consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses; if reportable conditions are noted, a statement that the auditor's consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.
 - p. The definition of a material weakness.
 - q. If applicable, a statement about whether the auditor believes any of the reportable conditions noted are material weaknesses and, if they are, a reference to a description of the material weaknesses in the schedule of findings and questioned costs, including the reference number of the findings. If there are no reportable conditions, a statement is made that no material weaknesses were noted.
 - r. A statement that the report is intended for the information of the audit committee, management, specified legislative or regulatory bodies, federal awarding agencies, and (if applicable) pass-through entities. If the report is a matter of public record, a statement should be added that the report is a matter of public record and its distribution is not limited.
 - s. The manual or printed signature of the auditor's firm.
 - t. The date of the auditor's report.
3. Schedule of Findings and Questioned Costs (includes Summary of Independent Auditor's Results)

The basic elements of this schedule include the following:

1. The type of report the auditor issued on the financial statements of the auditee (that is, unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
2. Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses.
3. A statement on whether the audit disclosed any noncompliance that is material to the financial statements of the auditee.

4. Where applicable, a statement that reportable conditions in the internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses.
 5. The type of report the auditor issued on compliance for major programs (that is, unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
 6. A statement on whether the audit disclosed any audit findings that the auditor is required to report under Section 510 (a) of Circular A-133.
 7. An identification of major programs.
 8. The dollar threshold used to distinguish between Type A and Type B programs as described in Section 520 (b) of Circular A-133.
 9. A statement on whether the auditee qualified as a low-risk auditee under Section 530 of Circular A-133.
 10. Findings relating to the financial statements which are required to be reported in accordance with "Government Auditing Standards."
 11. Findings and questioned costs for federal awards, which must include audit findings as defined in Section 510 (a) of Circular A-133.
 12. Audit findings that relate to the same issue should be presented as a single audit finding. Where practical, audit findings should be organized by federal agency or pass-through entity.
 13. Audit findings that relate to both the financial statements and the federal awards should be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form, with a reference to a detailed reporting in the other section of the schedule. For example, a material weakness in internal control that affects the auditee as a whole, including its federal awards, should usually be reported in detail in the section of the schedule of findings and questioned costs that is related to the financial statements, with a summary identification and reference given in the section related to federal awards. Conversely, a finding of noncompliance with a federal program law that is also material to the financial statements should be reported in detail in the federal awards section of the schedule, with a summary identification and reference given in the financial statement section.
4. Summary Schedule of Prior Audit Findings

The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The auditee shall also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan shall include the reference numbers the auditor assigns to audit findings. Since the summary schedule may include audit findings from multiple years, it shall include the fiscal year in which the finding initially occurred.

The summary schedule of prior audit findings shall report the status of all audit findings included in the prior year audit's schedule of findings and questioned costs relative to federal awards. The summary schedule shall also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.

When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation.

When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

- . Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse,
 - a. The federal agency or pass-through entity is not currently following up with the auditee on the audit finding, and
 - b. A management decision was not issued.
5. Applicable Corrective Action Plan and Written Attestation Letter

At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year single audit report. The corrective action plan shall provide the

name(s) of the contact person (s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

The auditor has no responsibility for the corrective action plan; however, the auditor may be separately engaged by the auditee for assistance in developing appropriate corrective actions in response to audit findings. The auditor may find the auditee's corrective action plan useful in performing follow-up on prior audit findings, because it may provide an indication of the corrective steps planned by the auditee.

After receipt of the corrective action plan by ADP, additional follow-up and final resolution regarding the audit findings are needed in order to meet Circular A-133 audit requirements. Circular A-133 requires the counties to maintain responsibilities for making management decisions regarding audit findings and resolution. Management decisions shall be made within six months after receipt of the subrecipient's single audit report to ensure appropriate and timely corrective action.

Therefore, ADP requires written attestation from the county that the subrecipient's Corrective Action Plan has been implemented, and the audit findings contained in the Schedule of Findings and Questioned Costs/Management Letter have been resolved. Additional on-site review of procedures implemented and documentation generated by the subrecipients may have to be performed by the county to satisfy this requirement. Also, review of the CPA's subsequent fiscal year single audit report may provide attestation that the audit findings have been resolved.

IMPACT OF ALCOHOL AND/OR DRUG PROGRAM CERTIFICATION STANDARDS

The current Alcohol and/or Drug Program Certification Standards, effective July 1, 1999, delete the requirement for providers to have an independent financial audit performed for program certification purposes. However, this deletion applies to program certification purposes only. Subrecipients meeting the single audit threshold still must comply with the audit requirements contained in Circular A-133.

It is our commitment to work with the counties and direct service contractors in a cooperative effort to achieve compliance with OMB Circular A-133.

Please send the audit reports to:

Department of Alcohol and Drug Programs
Division of Administration
Audit Services Branch
1700 K Street, Fifth Floor
Sacramento, CA 95814-4037
Attention: David Mar

REFERENCES

Title/Subject: Issue Number: Date Issued: Expiration Date:	OMB Circular A-133 Reminder Letter 98-31 June 18, 1998 Superseded by next annual OMB Circular A-133 Reminder Letter
Title/Subject: Issue Number: Date Issued: Expiration Date: Date Deleted:	OMB Circular A-133 Reminder Letter 97-24 April 25, 1997 Superseded by next annual OMB Circular A-133 Reminder Letter June 18, 1998
Title/Subject: Issue Number: Date Issued: Expiration Date: Date Deleted:	OMB Circular A-133 Reminder Letter 96-31 June 18, 1996 Superseded by next annual OMB Circular A-133 Reminder Letter April 25, 1997

Title/Subject: Issue Number: Date Issued: Expiration Date: Date Deleted:	OMB Circular A-133 Reminder Letter 95-09 March 22, 1995 Superseded by next annual OMB Circular A-133 Reminder Letter June 18, 1996
Title/Subject: Issue Number: Date Issued: Expiration Date: Date Deleted:	OMB Circular A-133 Reminder Letter 94-12 May 20, 1994 Superseded by next annual OMB Circular A-133 Reminder Letter March 22, 1995
Title/Subject: Issue Number: Date Issued: Expiration Date: Date Deleted:	OMB Circular A-133 Reminder Letter 93-38 May 18, 1993 Superseded by next annual OMB Circular A-133 Reminder Letter May 20, 1994
Title/Subject: Issue Number: Date Issued: Expiration Date: Date Deleted:	OMB Circular A-133 Audit Requirement Responsibilities and Request for Audit Reports 92-06 March 12, 1992 Superseded by next annual OMB Circular A-133 Reminder Letter May 18, 1993

HISTORY

If you have any further questions, please contact David Mar, Audit Services Branch, Division of Administration at (916) 324-2193.

QUESTIONS/MAINTENANCE

EXHIBITS

Exhibit 1: [OMB Circular No. A-133, revised June 24, 1997, from Executive Office of The President, Office of Management and Budget](#)

DISTRIBUTION

County Alcohol and Drug Program Administrators
Wagerman Associates, Inc.
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